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Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY, MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
573-526-5695 (TT)

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October 23, 1996

Honorable Reed Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: FCC Access Reform proceeding

Dear Chairman Hundt:

At the September FCC-state meeting, the state representatives committed to submitting to the FCC a discussion paper and list of issues concerning access charge reform. The Commission will consider the report over the coming weeks as it develops its access reform notice.

Enclosed please find a paper offering suggestions on the FCC's upcoming access reform proceeding. The paper is divided into three short sections. The first section summarizes NARUC's historical concern with access-related issues, along with the proceedings of the Access Issues Work Group. The second section lists proposed policy goals, based upon the states' previous work. The final section lists eighteen specific questions which the NARUC Communications Committee proposes for inclusion in the FCC notice. The list is not intended to be exhaustive.

Thank you very much for your careful consideration of these issues. We hope the Commissioners and staff find the report useful. We look forward to future opportunities for cooperation, including additional follow-up to the September consultations.

Sincerely,



Kenneth McClure
Chairman
NARUC Communications Committee

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Bob Rowe, Vice Chair
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Julia Johnson, Chair, Policy Subgroup
on Federal Legislation and Regulation

KM:nh

Attachment

cc: Honorable Rachelle B. Chong
Honorable Susan Ness
Honorable James Quello
Honorable Cheryl Parrino
Ms. Regina Keeney
Mr. John Nakahata
Members, NARUC Committee on Communications
Ms. Debra Kriete
Mr. Brad Ramsay

NARUC White Paper on Access Reform

Background

NARUC's policy statements regarding access charges have focused on the states' interests in developing a compensation system which assures that all carriers which use the local exchange network should pay an appropriate and reasonable charge. The nexus between access charges and universal service was identified over fifteen years ago, in 1979:

All users of interexchange services connected, directly or indirectly, to the local exchange network, including private line, FX, CCSA, etc., should contribute by payment of direct or indirect access charges to support of the local exchange network on a fair and indiscriminate basis to promote universality of service at affordable rates. States should have the authority to develop and administer access charges pursuant to guidelines established by the Federal-State Joint Board.

["Resolution on Legislative Policy to Amend the Communications Act of 1934," 91st NARUC Annual Convention (December 5, 1979)]. The relationship between pricing of various services such as access and the potential impacts on local rates has continued to be an important policy concern as telecommunications markets and regulatory structures have evolved in the intervening years. In 1993, NARUC's Access Issues Work Group (AIWG) produced a report which found that there was broad consensus among twenty-three parties representing local exchange companies, interexchange carriers, resellers, competitive access providers, consumer organizations and numerous trade associations that changes to existing access rules were necessary. The Report identified several objectives, that included, but were not limited to:

- Encouraging a competitive market for access services.
- Customer access to emergency services.
- Maintaining quality of service standards.
- Permitting resale of services.
- Monitoring of all providers and verification of monitoring information.
- Cost of service pricing for access services.
- Transition mechanisms.
- Expanding the ubiquity of existing services.
- Improving efficiency of mechanisms for universal service.
- Developing mechanisms to insure ubiquity of services.
- Flexibility to respond to evolving demands and technologies.

Minimal form of rate regulation for basic telephone services.

NARUC resolved in March, 1993, that a comprehensive review of access was needed. While taking no position on the specific findings of the Report, NARUC stated that the issues, objectives and conclusions of the Report should be used as the basis for a formal, comprehensive inquiry by the FCC.

An ad hoc staff work group considered access reform options subsequent to the AIWG Report. In February, 1996, this work group proposed the following policy goals, which were developed based on prior statements and documents published by NARUC.

- **Foster competitive markets.**

Entry barriers to competition should be removed, while ensuring that States retain the flexibility to establish appropriate terms and conditions under which services are provided. Incumbent carriers should be given regulatory flexibility commensurate with market conditions.

- **Preserve and advance universal service.**

Universal access to basic telecommunications services at affordable rates must be preserved. As technology enhances telecommunications capabilities, the package of universally available basic services should be consistent with expanding customer needs. All providers of telecommunications services should share in the obligation to support universal service.

- **Encourage economically efficient pricing.**

As competition develops, carriers should have the flexibility to price services on an economically efficient basis, according to market conditions. Rates for services not subject to competition should be nondiscriminatory.

- **Maintain quality of service standards.**

High quality service must be ensured in all markets. Regulatory oversight is particularly important in those markets that are less competitive or attractive for investment.

- **Ensure adequate consumer protections.**

Customers of regulated basic exchange service should not subsidize the

provision of competitive services. Moreover, competitive services should bear a reasonable share of the joint and common cost of facilities used to provide basic telephone service.

Based on NARUC's previous work and current legal and economic conditions, the Communications Committee recommends the following issues be included in the FCC's upcoming access reform proceeding. The list is not intended to be exhaustive.

Issues to Consider for Access Reform

1. What should be the governing policy objectives for access reform? Are the above-identified objectives valid in light of TA-96? How do those objectives relate to the objectives of the FCC's Interconnection Order and the FCC's objectives in the Universal Service docket? How do they conflict?
2. Are the same traffic sensitive (TS) network elements (e.g., transport, switching) used for interconnection and access? Are different charges for access and interconnection sustainable in the long run? Why or why not? Are there any TS network functions that are only used for interconnection (local service) and not used for interexchange service? If so, what are they?
3. Compare TELRIC costs for TS elements with their embedded costs using Part 69. Identify those elements where current Part 69-based embedded costs exceed TELRIC costs and those elements where TELRIC costs exceed Part 69-based embedded costs. If the comparisons of these costs by element are not uniform nationwide, indicate in what areas and for which companies the disparities occur.
4. Should access be priced based on forward looking economic costs? Why or why not? If so, should they be based on the same methodology, i.e., TELRIC, as interconnection?
5. Is there a revenue deficiency if access pricing is based on forward looking economic costs such as TELRIC? If there is a disparity between embedded and forward looking costs, should LECS be allowed to recover those residual or legacy costs? If so, should they be allowed to recover the entire

amount? Why or why not? If not, what portion should they be allowed to recover, and how should that amount be determined? Should the disparity be recovered through access charges? Why or why not? If any disparity is not recovered through access charges, then how else could it be recovered? Is the approach consistent with the FCC's position in the Interconnection Order?

6. Why may embedded costs and forward looking economic costs for access vary? Are the explanations limited to technological advances? Is the amount of spare capacity present in the current network configuration a factor? Are some of the costs subject to a prudence examination? Will in-region interLATA entry constitute a mitigating consideration that should be reflected in the evaluation of the potential difference between embedded and forward looking economic costs for access?

7. How should Internet and other Enhanced Service Providers (ESP) usage be reflected in access reform? Should ESP exemptions continue? Is there a potential access revenue deficiency from increased use of the Internet for voice and/or data telephony? If so, what is the magnitude, identified by each cost element? What are the revenues if ESPs are required to pay for the TS elements they use? That magnitude should be calculated separately using current Part 69-based TS rates and TELRIC derived TS rates (no CCL)?

8. Identify any increased network costs, network exhaustion or network failure problems resulting from ESP use, including Internet use. For any problem identified in the first part, list each network element and type of equipment impacted by ESP use, i.e. line cards, trunks, processor switching matrix, etc.

9. Are flat rated local rates including flat rated extended area service sustainable in competitive local exchange and long distance markets? Must special accommodations be made to preserve flat local rates and how can that be done?

10. If access is priced based on forward looking economic costs, is a unitary access charge pricing system envisioned, akin to the TELRIC approach for interconnection and unbundled network

elements?

11. What should the price relationship between special and switched access be in the future, particularly if a forward looking costing approach is used?
12. Should competitive equity considerations enter into setting access charges, such as those that motivated the old equal charge per unit of traffic rule? If access is priced at forward looking costs, does that pricing have any implications that favor specific carriers, type of carrier or size of carrier?
13. Current Part 69-based rates are based on post separation costs. Therefore, switching costs include such factors as DEM weighting. If forward looking costs are used, will separation changes need to be made to eliminate DEM weighting or can forward looking switching and transport costs be adjusted to reflect current separation factors? If so, how?
14. What changes to access elements--their structure and pricing--should be made to reflect the current and future network configuration and technologies?
15. Should the existing Part 69 rates be considered network elements or services? If interconnection elements are to be harmonized with an access structure, will Part 69 need to be made more or less granular? Can Part 69 services be mapped to an interconnection element from a technical network function standpoint? From a policy standpoint, is a more or less unbundled access structure desirable?
16. If access is reformed, what are the implications for other FCC rules such as Parts 32, 36, 64, and 69?
17. What is the impact on small companies? Should there be a separate track for the small companies or a phase-in if the FCC decides to price access as they did interconnection? Should the small companies price access on fully distributed costs while the large companies price on TELRIC

so that access follows a Class A or Class B type pricing scheme?

18. What is the impact on local rates if switched access rates are priced based on TELRIC?